

*Full Report*



# U.S. Individual Life Guaranteed and Simplified Issue Persistency

A Joint Study Sponsored by  
Society of Actuaries and LIMRA





# U.S. Individual Life Persistency: Guaranteed and Simplified Issue

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## Overview

This report represents the results of individual life insurance lapse experience for guaranteed issue and simplified issue life in the United States. Lapse experience for a subset of these data that is specified as pre-need life insurance is also reported. The data collected covers policy experience from 2005 to 2009. This study was conducted jointly by LIMRA and Society of Actuaries (SOA) and was based on data provided by 40 life insurance writers. The lapse experience is separated by guaranteed issue, pre-need, and simplified issue. Results for most key policy and product factors are examined.

### *Guaranteed Issue*

- Policy lapse rates averaged 4.4 percent and face amount lapse rates averaged 6.1 percent.
- Policy lapse rates for male and female policyholders were the same, averaging 4 percent. The average face amount exposed for females (\$6,000) were higher than the average for males (\$5,400), producing higher face amount lapse rates for females than male. Face amount lapse rates averaged 5.3 percent for males and 6 percent for females. The exposure base was comprised of 39% male and 61% female on a policy basis.

### *Pre-Need*

- Policy lapse rates averaged 1.7 percent and face amount lapse rates averaged 1.8 percent.
- Lapse rates were slightly higher for male policyholders than female policyholders. Policy lapse rates averaged 2.1 percent for males and 1.8 percent for females. The exposure base was comprised of 36% male and 64% female on a policy basis.

### *Simplified Issue*

- Policy lapse rates averaged 13.1 percent and face amount lapse rates averaged 18.6 percent.
- Lapse rates for male policyholders were higher than female policyholders in most policy years. Policy lapse rates averaged 13.5 percent for males and 12.8 percent for females. The exposure base was comprised of 43% male and 57% female.

**METHODOLOGY** For the purposes of this study, “lapse” includes termination for nonpayment of premium, insufficient cash values or full surrender of a policy, transfer to reduced paid-up or extended term status, and terminations for unknown reasons. This is consistent with the definition of lapse applied to other LIMRA and SOA life experience studies.



## Recommendations

This report examines lapse experience on guaranteed and simplified issue individual life products for various policy types and product factors. The study can be used for industry benchmarking as well as for background information for product development and planning processes.

The data contained in this report can help companies identify factors that impact guaranteed and simplified issue individual life insurance persistency, as well as to validate lapse assumptions. While the study contributors represent a sizable portion of the guaranteed and simplified issue industry, they do not represent the entire industry and differences in results by company may vary. These results should be used only as a guide or supplement to the experience of the individual carriers. Companies should carefully consider underlying differences such as distribution, product design, product development, and marketing strategy between their own organizations and the contributing companies.

To aid the reader in interpreting the information contained in this report, a spreadsheet providing exposure and lapse information by policy factor and data cell is available on both the LIMRA and the SOA websites ([www.limra.com](http://www.limra.com) and [www.soa.org](http://www.soa.org)).

## Data Description

Data supporting the results of this study were collected jointly with the Society of Actuaries Guaranteed Issue & Simplified Issue Experience Committee data call. Both mortality and lapse studies for these life insurance products are based on this industry-wide data collection effort.

The observation years in the study were 2005 to 2009. Contributing companies were asked to provide information on their entire in force block at the policy level. All policies were converted to policy year for analysis.

It should be noted that not all contributing companies in the study contributed data for all policies and product factors requested. Because of this, data is not reported for any cell for which there were fewer than three companies *or* less than 1,000 policies exposed. All available data is reported in the spreadsheet mentioned in the above section, however, not all results are shown in this report.

### Data Quality Checks

For quality control purposes, the following checks were performed.

- **Records by Company** — For each company, the total number of policy records and associated face amount submitted for each study experience year was compared to LIMRA's Annual Life Insurance Inforce Survey and LIMRA's Annual Life Insurance Supplement Survey. Both surveys collect policies and face amounts. In addition, LIMRA's Annual Life Insurance Supplement Survey collects annual premiums sold.
- **Lapse Rates by Company and by Product Line** — For each company, lapse rates were calculated by plan and policy year, and provided to each company. Differences were noted and discussed with individual company data contacts. The data contacts were also asked to review the results and report any discrepancies between the industry study and the results of their own experience study.

## Guaranteed Issue Individual Life Persistency

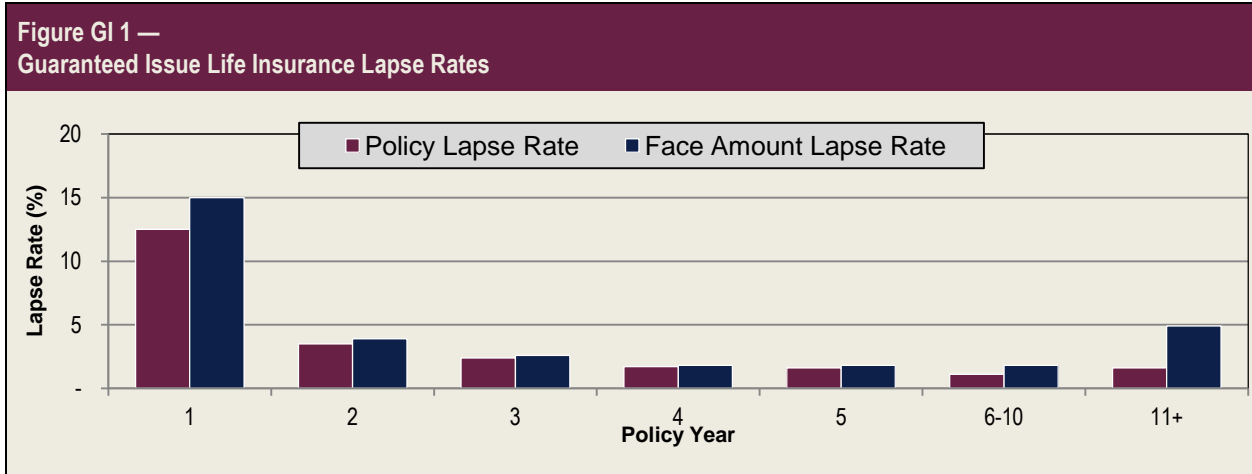
### Data Description

The guaranteed issue individual life lapse rates shown in this section were based on data from 20 contributors. Contributing companies are listed at the end of the report. Policy exposure totaled just over 6 million and face amount exposure was over \$41 billion. More than half of the exposure data were issued after 2004. Roughly one percent of the exposure data were issued prior to 1990 and twenty-one percent were issued in the 1990s.

Issue Year	Policy Exposure	Face Amount Exposure (000s)
1989 and Prior	74,489	1,571,702
1990–1999	1,426,904	8,506,878
2000	268,153	1,365,675
2001	265,737	1,325,487
2002	316,944	1,655,574
2003	355,544	1,926,824
2004	442,792	2,507,597
2005	1,011,092	5,884,936
2006	1,047,269	6,672,986
2007	772,379	5,130,195
2008	530,486	3,676,933
2009	226,159	1,635,394
Total	6,737,947	41,860,181

Policy exposure in policy years 1 – 2	39%
Policy exposure in policy years 1 – 5	68%
Policy exposure in policy years 1 – 10	87%
Average face amount exposed	\$6,000
Average face amount exposed of new issues	\$6,600
Average issue age	67
Average attained age	73
Male insured represented	39%
Permanent insurance represented	93%
Pre-need insurance represented	63%

Overall Results



- Policy lapse rates averaged 4.4 percent and face amount lapse rates averaged 6.1 percent.
- Face amount lapse rates were higher than policy lapse rates for all policy years. This is due to larger policies being more likely lapse than compared to smaller policies. Additional analyses by policy size are discussed in the next section.

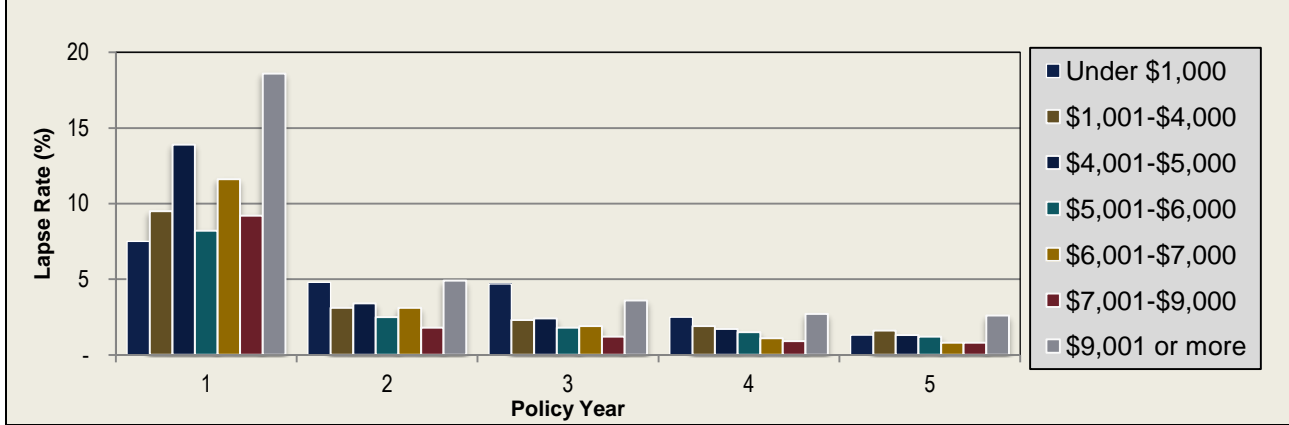
**Table GI 3 —  
Guaranteed Issue Lapse Rates by Calendar Year**

Calendar Year	Policy Lapse Rate (%)	Face Amount Lapse Rate (%)
2009	4.1	6.7
2008	4.2	5.6
2007	4.3	5.8
2006	4.2	5.6
2005	3.1	3.4
<b>Total</b>	<b>4.4</b>	<b>6.1</b>

- During the start of the U.S. recession in 2008 and 2009, policy lapse results for guaranteed issue life products showed no variance, but face amount lapse rates had a notable increase in 2009.

Largest GI Policies Have Higher Lapse Rates

Figure GI 2 —  
Guaranteed Issue Life Insurance Policy Lapse Rates by Policy Size — Policy Year 1 to 5

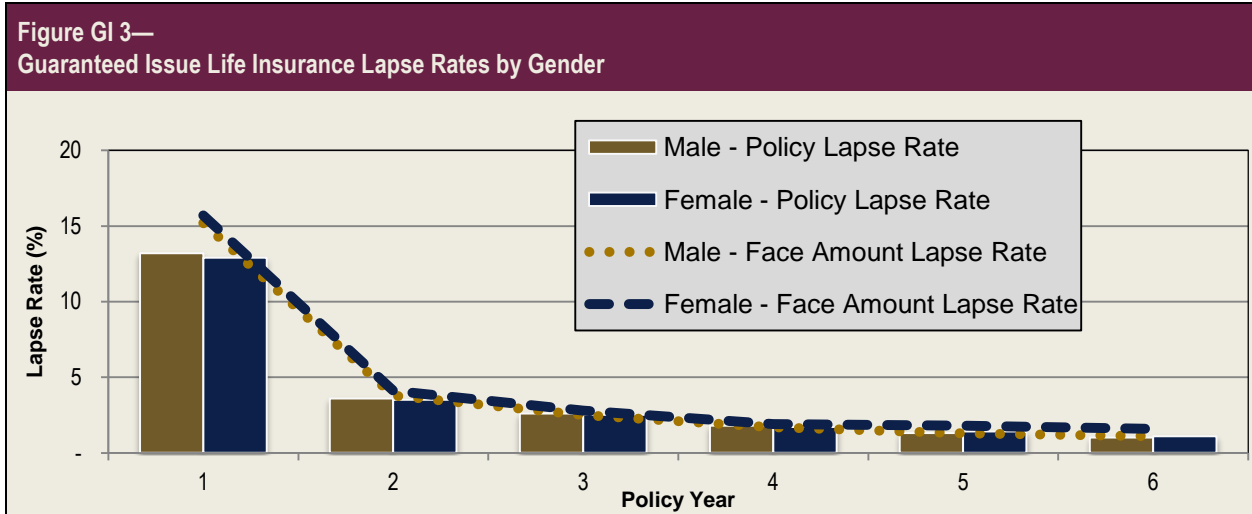


- Policy lapse rates for the largest guaranteed issue policies are the highest. Lapse rates for policies with face amounts greater than \$9,000 averaged 8.6 percent, significantly higher than smaller policies. Second highest lapse rates were policies with face amounts between \$4,001 and \$5,000, with an average policy lapse rate of 4.3 percent. This is likely due to greater competition at the \$5,000 face amount. Most of the remaining policy size groups averaged below 3 percent.
- Average face amount for new issues was \$6,600, slightly higher than \$6,000 for the average face amount for all policy years.

Table GI 4 —  
Guaranteed Issue Life Insurance Exposure by Policy Size

Policy Size	Average Face Amount Exposed	Percent of Policy Exposed
Under \$1,000	900	9%
\$1,001-\$4,000	2,800	30%
\$4,001-\$5,000	5,000	16%
\$5,001-\$6,000	5,900	9%
\$6,001-\$7,000	6,900	9%
\$7,001-\$9,000	8,200	10%
\$9,001 and over	13,200	17%
<b>Total</b>	<b>\$6,000</b>	<b>100%</b>

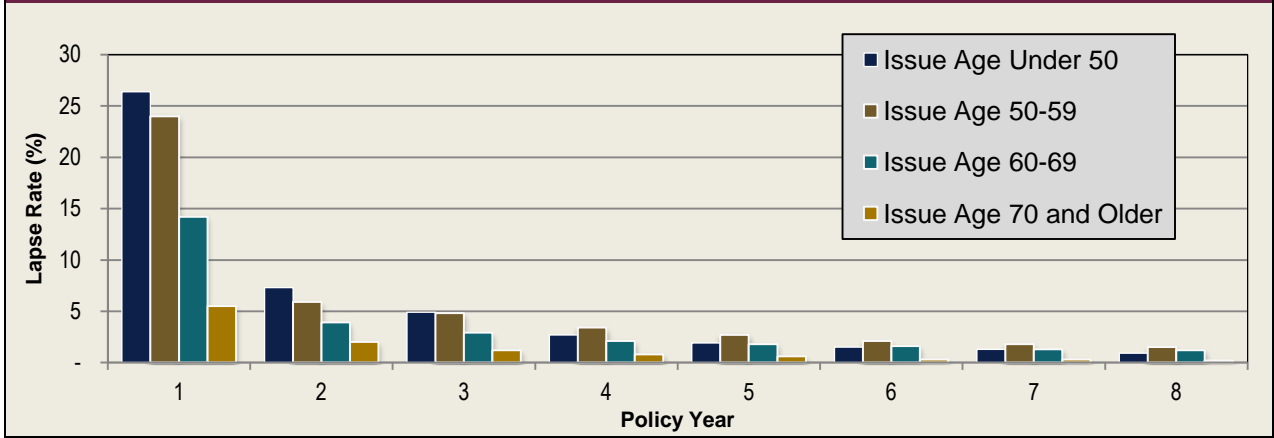
Female Lapse Rates Higher Than Male Lapse Rates



- Lapse rates for male and female policyholders were the same for many policy years. Policy lapse rates averaged 4 percent for both genders, but female policyholders have higher lapse rates on a face amount basis. Face amount lapse rates averaged 5.3 percent for males and 6 percent for females.
- The guaranteed issue exposure base was comprised of 39% male and 61% female on a policy basis.
- In overall individual life insurance, male policyholders tend to have larger policies compared to female policyholders. However, the average face amount exposed for males was \$5,400 and the average face amount exposed for females was \$6,000.
- *Note: The gender analysis is not based on gender-based rates, but policyholder gender. Products using unisex rates were asked to specify unisex male or unisex female when available. The difference in average lapse rate by gender from all guaranteed issue life is due to a portion of older unisex policies where gender information was not retained.*

Lapse Rates Decrease with Issue Age

Figure GI 4—  
Guaranteed Issue Life Insurance Policy Lapse Rates by Issue Age



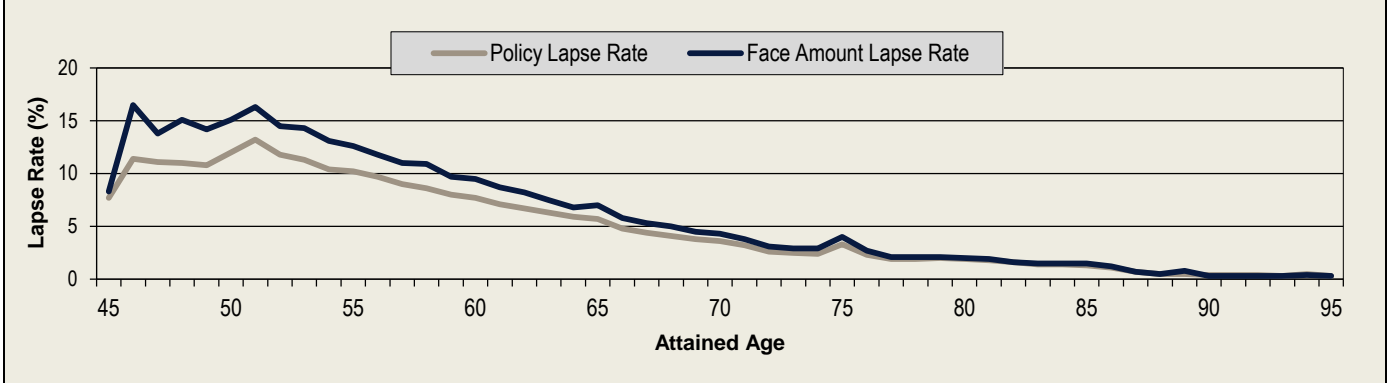
- Based on trends for overall individual life persistency, lapse rates tend to decrease as age increases. Policy lapse rates averaged 7.6 percent for issue ages under 50, 7.2 percent for issue ages in the 50s, 4.5 percent for issue ages in the 60s, and 1.8 percent for issue ages 70 and older. The lower lapse rates for issue ages 70 and older is mainly due to the greater percentage of pre-need policies in this age group.
- Distribution of the current study’s exposure base was skewed towards the older issue ages, due to the portion of pre-need business. The average issue age for guaranteed issue was 67 years old. Of those in the 70 and older issue age cohort, more than 12 percent were policies issued over the age of 80.

Table GI 5 —  
Guaranteed Issue Life Insurance Exposure by Issue Age Cohort

Issue Age	Average Face Amount Exposed	Percent of Policy Exposed
0-49	8,500	9%
50-59	6,500	22%
60-69	5,700	32%
70+	5,000	37%

Lapse Rates Decrease with Attained Age

Figure GI 5 —  
Guaranteed Issue Life Insurance Lapse Rates by Attained Age



- Similar to trends for overall individual life persistency, lapse rates decline with age. Lapse rates at the younger ages tend to be higher due to the greater number of new policies as well as the smaller portion of preneed policies.
- Policy lapse rates fall below 2 percent after attained age 76, and below 1 percent after attained age 87.
- Distribution of the exposure base by attained age leans significantly towards the older ages. The average attained age was 73 years old. Of those in the 70 and older attained age cohort, roughly 30 percent were policies over the age of 80.

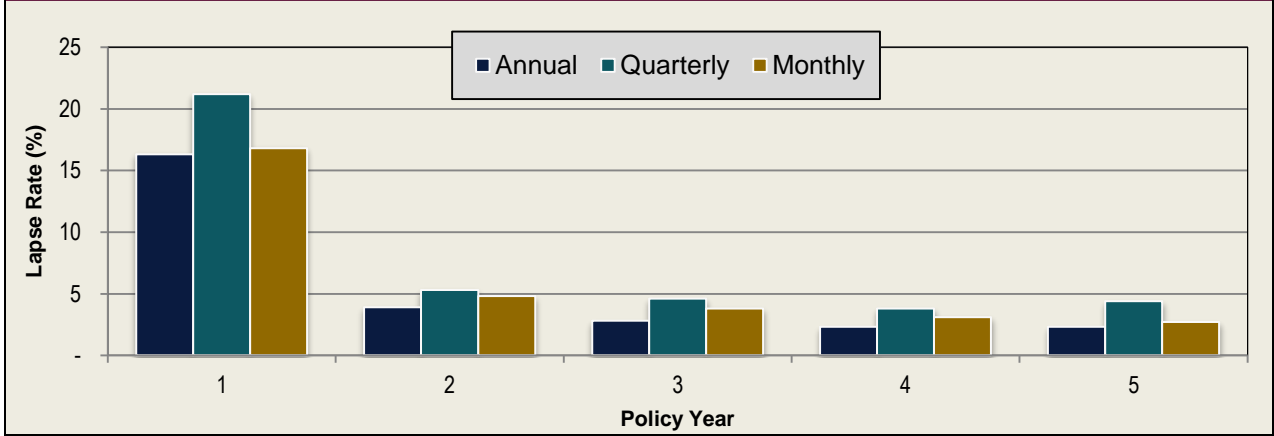
Table GI 6 —  
Guaranteed Issue Life Insurance Exposure by Attained Age Cohort

Attained Age	Average Face Amount Exposed	Percent of Policy Exposed
0-49	7,000	4%
50-59	7,700	15%
60-69	6,300	29%
70+	5,000	52%



Monthly Premium Payment Mode Has the Lowest Lapse Rate

Figure GI 6 —  
Guaranteed Issue Life Insurance Policy Lapse Rates by Premium Payment Mode



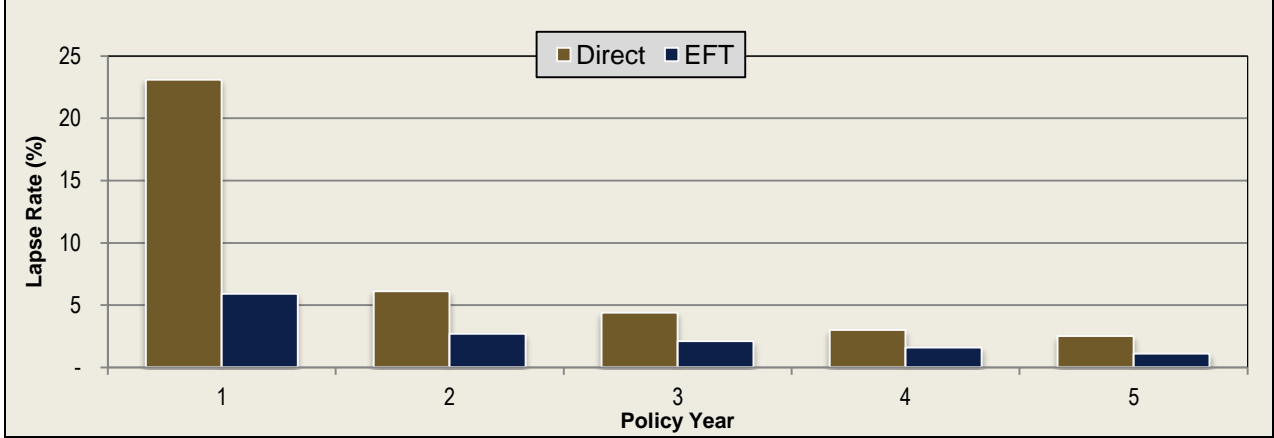
- Similar to trends for overall individual life persistency, policies with quarterly premium payment modes tend to have the highest lapse rates in early policy years. Lapse rates tend to increase with the number of premium payments made each year, with the exception of monthly payment modes.
- For the overall individual life persistency studies, monthly premium payment modes have significantly more policies paid through electronic fund transfer (EFT) methods than other payment modes. However, perhaps due to the targeted market of guaranteed issue products, policies paid through EFT are just as prevalent in non-monthly premium payment modes.
- Policy lapse rates averaged 6.1 percent for annual, 8.5 percent for quarterly, and 5.9 percent for monthly premium payment modes.

Table GI 7 —  
Guaranteed Issue Life Insurance Exposure by Premium Payment Mode

Premium Mode	Average Face Amount Exposed	Percent of Policy Exposed
Annual	7,000	7.6%
Quarterly	8,500	9.4%
Monthly	6,300	83.0%

Premium Payment via Electronic Fund Transfers Have Lowest Lapse Rates

Figure GI 7 —  
Guaranteed Issue Life Insurance Policy Lapse Rates by Premium Payment Type



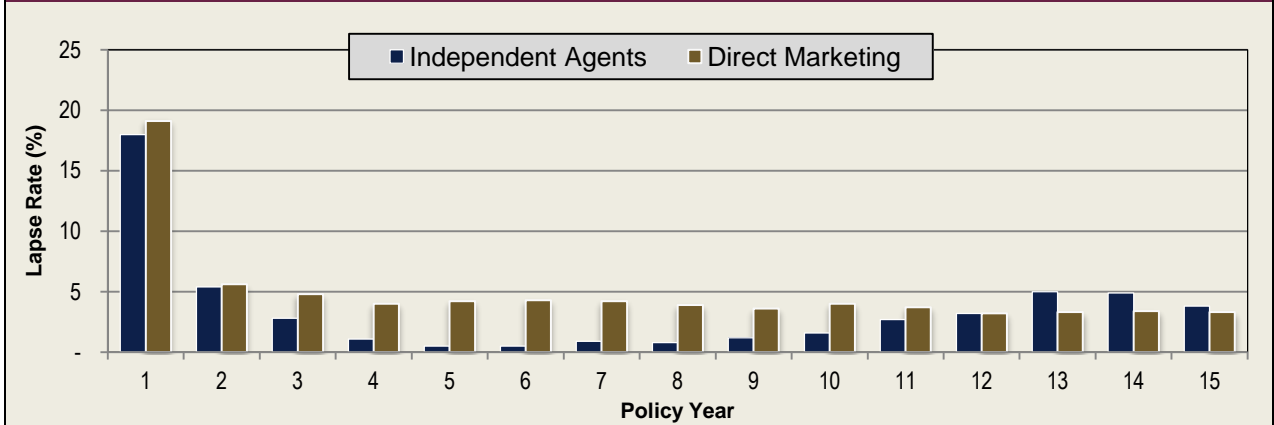
- Regardless of the frequency of premiums paid each year, lapse rates are lower for policies paid through automatic methods than compared to policies that are billed directly.
- lapse rates averaged 7.4 percent for direct bill and 2.7 percent for EFT methods.

Table GI 8 —  
Guaranteed Issue Life Insurance Exposure by Premium Payment Type

Premium Mode	Average Face Amount Exposed	Percent of Policy Exposed
Direct	5,600	47%
EFT	7,000	29%

Lapse Rates by Distribution Channel

Figure GI 8 —  
Guaranteed Issue Life Insurance Policy Lapse Rates by Distribution



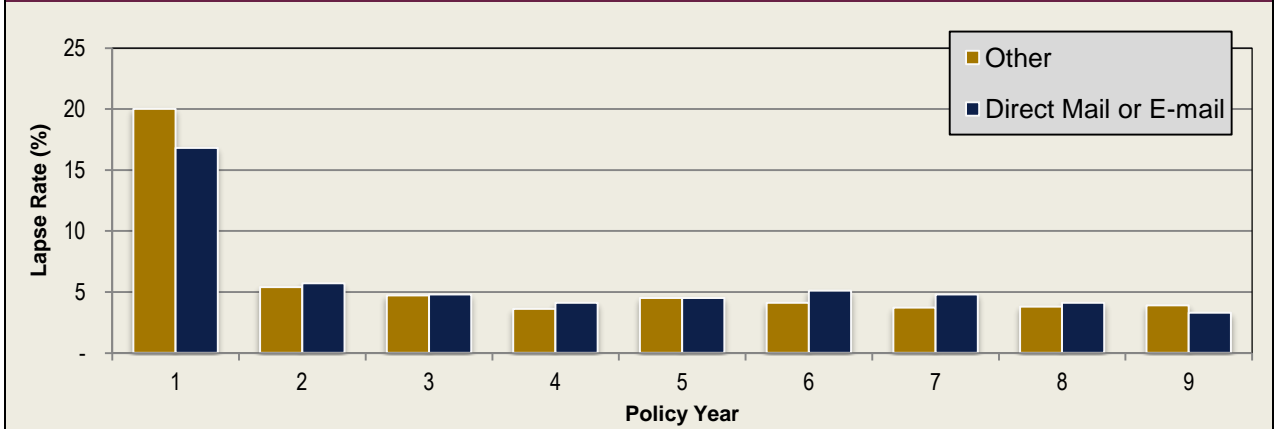
- The majority of guaranteed issue policies are sold through direct marketing. This is due to the cost effectiveness of selling small policies. Policy lapse rates averaged 6.6 percent for policies sold through an independent channel and 9.1 percent for those sold through direct marketing. The higher lapse rate for direct marketing policies is likely due to the ease of price-shopping and possibly more buyer’s remorse due to the lack of understanding of the purchase.
- Face amount lapse rates were higher for the independent channel versus direct marketing. Face amount lapse rates averaged 10.9 percent for policies sold through an independent channel and 9.5 percent for those sold through direct marketing. The higher lapse rate for policies sold through the independent channel is mainly due to the greater portion larger policies.

Table GI 9 —  
Guaranteed Issue Life Insurance Exposure by Distribution

Distribution	Average Face Amount Exposed	Percent of Policy Exposed
Direct	7,400	92%
Independent	15,700	8%

Lapse Rates by Distribution Method

Figure GI 9 —  
Guaranteed Issue Life Insurance Policy Lapse Rates by Distribution Method



- From the portion of policies sold through direct marketing, additional data was collected to separate the distribution method by direct mail or email and other. The other category includes marketing through print media, website, TV, radio, and telephone.
- The majority of policies were marketed through direct mail or email. Policy lapse rates averaged 8.5 percent for direct mail/email and 9.8 percent for the other marketing methods. The difference in lapse rate could be attributed to varying policy sizes. Policy size for new issues averaged \$7,600 for direct mail or email and \$8,100 for the other marketing category.

Table GI 10 —  
Guaranteed Issue Life Insurance Exposure by Distribution Method

Distribution	Average Face Amount Exposed	Percent of Policy Exposed
Other	7,900	14%
Direct Mail/Email	7,100	86%

## Pre-Need Individual Life Persistency

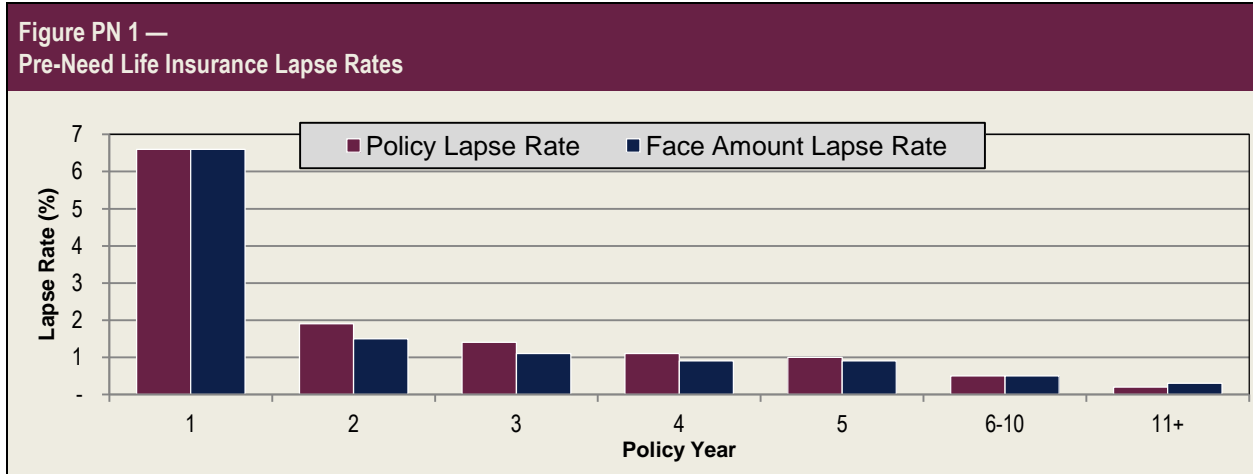
### Data Description

The pre-need individual life lapse rates shown in this section were based on data from 11 contributors. Policy exposure totaled close to 5 million and face amount exposure was over \$21 billion. More than two-thirds of the exposure data were issued after 2000. Roughly three percent of the exposure data were issued prior to 1990 and twenty-seven percent were issued in the 1990s.

Issue Year	Policy Exposure	Face Amount Exposure (000s)
1989 and Prior	171,383	458,192,062
1990–1999	1,366,818	5,198,137,184
2000	300,240	1,240,510,450
2001	312,350	1,337,481,834
2002	366,636	1,629,940,506
2003	370,485	1,666,203,989
2004	410,218	1,873,504,776
2005	568,969	2,708,279,267
2006	462,054	2,249,968,908
2007	338,564	1,699,007,107
2008	217,153	1,114,344,557
2009	88,178	445,762,263
Total	4,973,048	21,621,332,903

Policy exposure in policy years 1 – 2	27%
Policy exposure in policy years 1 – 5	55%
Policy exposure in policy years 1 – 10	82%
Average face amount exposed	\$4,400
Average face amount exposed of new issues	\$5,000
Average issue age	71
Average attained age	76
Male insured represented	36%
Permanent insurance represented	100%
Guaranteed issue represented	71%

Overall Results



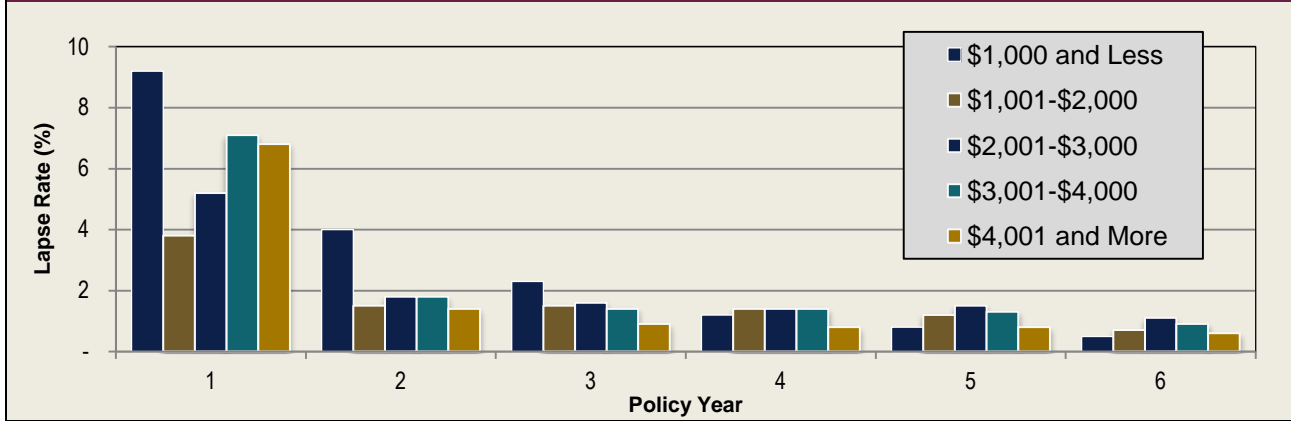
- Due to the nature of pre-need life insurance products, lapse rates are significantly lower when compared to guaranteed and simplified issue life insurance. Overall policy lapse rates averaged 1.7 percent and face amount lapse rates averaged 1.8 percent.
- Lapse rates drop to below one percent by policy year 4 for face amount and policy year 6 for policy count.
- Pre-need products showed no lapse impact from the start of the U.S. recession in 2008 and 2009.

**Table PN 3 —  
Pre-Need Lapse Rates by Calendar Year**

Calendar Year	Policy Lapse Rate (%)	Face Amount Lapse Rate (%)
2009	1.5	1.5
2008	1.5	1.6
2007	1.6	1.7
2006	2.1	2.2
2005	2.6	2.9
<b>Total</b>	<b>1.7</b>	<b>1.8</b>

Smaller Pre-Need Policies Have Higher Lapse Rates

Figure PN 2 —  
Pre-Need Life Insurance Policy Lapse Rates by Policy Size

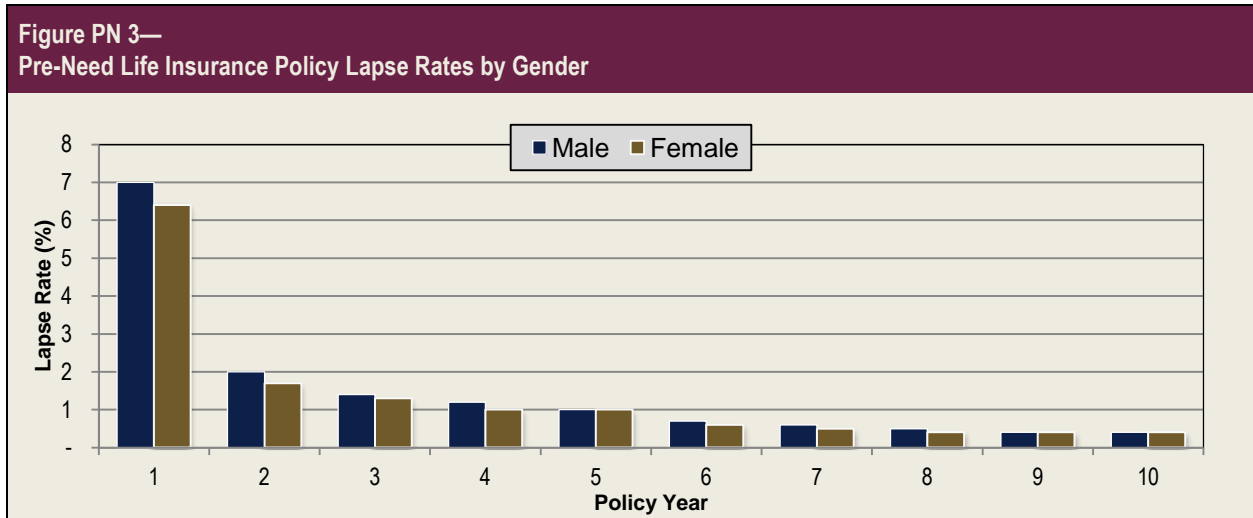


- Policy lapse rates for the smallest policy size cohort were the highest. Lapse rates for policies with face amounts less than or equal to \$1,000 averaged 2.6 percent. Second highest lapse rates were policies with face amounts between \$3,001 and \$4,000 with an average policy lapse rate of 2.1 percent.
- Average face amount for new issues was \$5,000, slightly higher than \$4,400 for the average face amount for all policy years.

Table PN 4 —  
Pre-Need Life Insurance Exposure by Policy Size

Policy Size	Average Face Amount Exposed	Percent of Policy Exposed
Under \$1,000	900	15%
\$1,001-\$2,000	1,900	14%
\$2,001-\$3,000	2,900	11%
\$3,001-\$4,000	3,900	10%
\$4,001 and over	7,000	50%
<b>Total</b>	<b>\$4,400</b>	<b>100%</b>

Female Lapse Rates Lower Than Male Lapse Rates

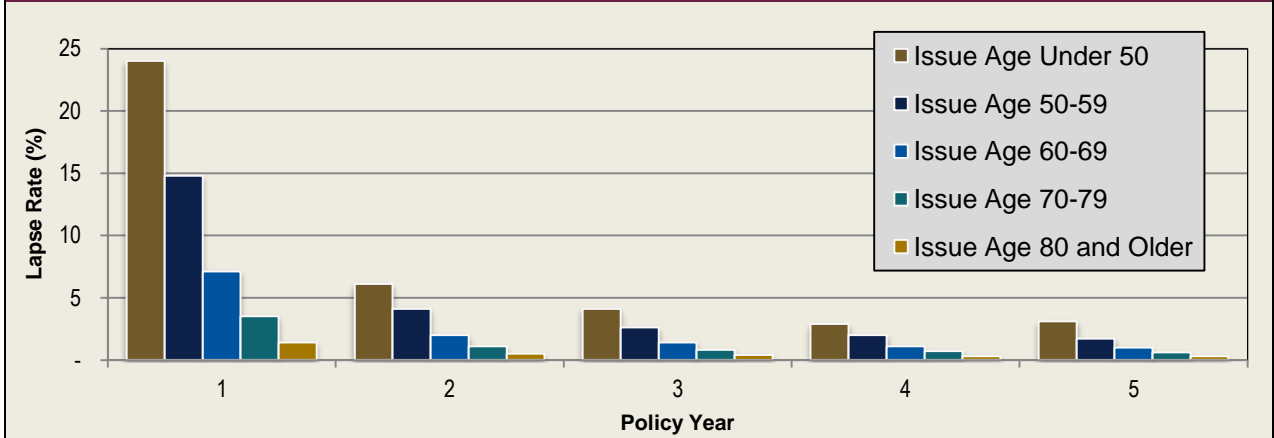


- Lapse rates were slightly higher for male policyholders than female policyholders. Policy lapse rates averaged 2.1 percent for males and 1.8 percent for females. Face amount lapse rates were nearly identical to policy lapse rates. The slight difference in lapse rates could be attributed to the proportion of smaller sized policies, which have higher lapse rates, among male policyholders.
- The pre-need issue exposure base was comprised of 36% male and 64% female on a policy basis.
- In overall individual life insurance, male policyholders tend to have larger policies compared to female policyholders. However, the average face amount exposed for males was \$4,400 and the average face amount exposed for females was \$4,500. Average face amount of new issues were \$4,800 for males and \$5,000 for females.
- *Note: The gender analysis is not based on gender-based rates, but policyholder gender. Products using unisex rates were asked to specify unisex male or unisex female when available.*



Lapse Rates Decrease with Issue Age

Figure PN 4—  
Pre-Need Life Insurance Policy Lapse Rates by Issue Age



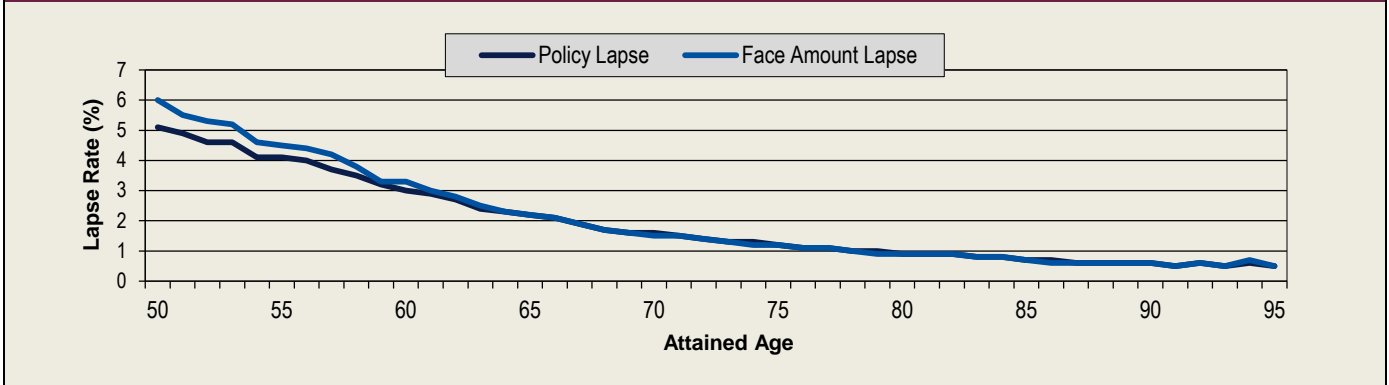
- Based on trends for overall individual life persistency, lapse rates tend to decrease as age increases. This trend is clearly visible for pre-need life insurance. The value of a pre-need life insurance policy increases with the age of the buyer. The premium of policy also increases with the age of the buyer, thereby reducing the likelihood of a replacement policy for older buyers.
- Policy lapses rate average 5.9 percent for issue ages under 50, 4.3 percent for issue ages in the 50s, 2.1 percent for issue ages in the 60s, and 1.1 percent for issue ages in the 70s and 0.7 for issue ages 80 and older.
- Distribution of the current study’s exposure base was skewed towards the older issue ages. The average issue age for pre-need was 71 years old.

Table PN 5 —  
Pre-Need Life Insurance Exposure by Issue Age Cohort

Issue Age	Average Face Amount Exposed	Percent of Policy Exposed
0-49	4,400	11%
50-59	4,400	12%
60-69	4,400	23%
70-79	4,500	34%
80+	5,100	20%

Lapse Rates Decrease with Attained Age

Figure PN 5 —  
Pre-Need Life Insurance Lapse Rates by Attained Age



- Similar to trends for overall individual life persistency, lapse rates decline with age. The lapse rate trend for pre-need is good example of this trend, with a smooth decline as age increases.
- Policy lapse rates fall below 2 percent by attained age 67, and below 1 percent by attained age 80.
- Distribution of the exposure base by attained age leans significantly towards the older ages. The average attained age was 76 years old.

Table PN 6 —  
Pre-Need Life Insurance Exposure by Attained Age Cohort

Attained Age	Average Face Amount Exposed	Percent of Policy Exposed
0-49	4,600	5%
50-59	4,400	9%
60-69	4,400	18%
70-79	4,500	29%
80+	4,700	39%

## Simplified Issue Individual Life Persistency

### Data Description

The simplified issue individual life lapse rates shown in this section were based on data from 34 contributors. Contributing companies are listed at the very end of this report. Policy exposure totaled just over 23 million and face amount exposure was over \$560 billion. The majority of policies were issued after 1999. Less than four percent of policies were issued prior to 1990 and twenty-one percent were issued in the 1990s.

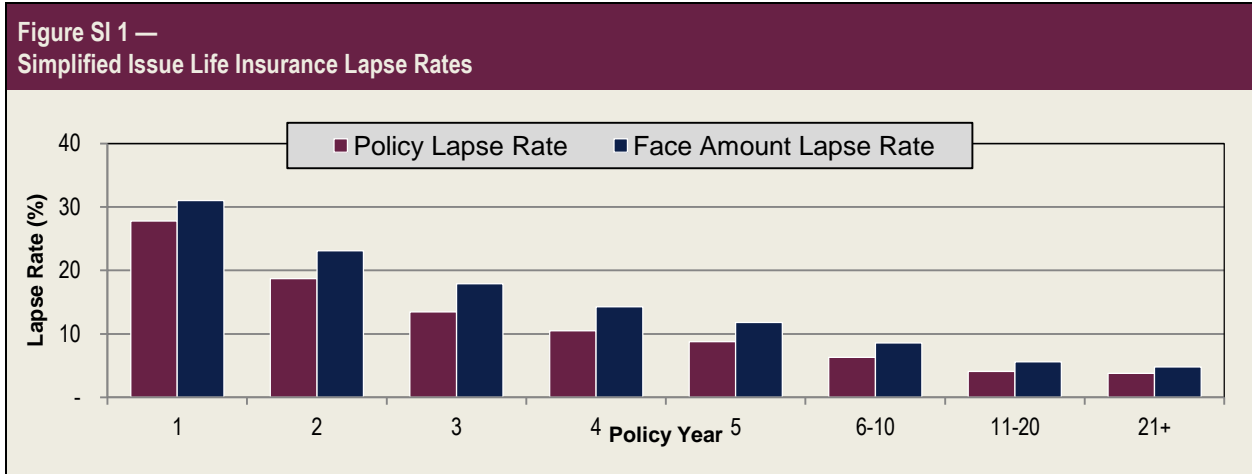
**Table SI 1 —  
Simplified Issue Data Exposure by Issue Year**

Issue Year	Policy Exposure	Face Amount Exposure (000s)
1989 and Prior	1,593,299	16,189,622
1990–1999	5,064,802	81,225,198
2000	958,095	18,768,117
2001	1,230,518	26,214,245
2002	1,582,444	35,678,821
2003	1,871,256	46,199,736
2004	2,330,423	60,719,368
2005	2,560,922	70,003,338
2006	2,366,084	71,895,109
2007	1,995,061	66,367,530
2008	1,447,536	48,245,798
2009	667,759	21,672,483
Total	23,668,199	563,179,364

**Table SI 2 —  
Exposure Data Characteristics for Simplified Issue Products**

Policy exposure in policy years 1 – 2	34%
Policy exposure in policy years 1 – 5	59%
Policy exposure in policy years 1 – 10	81%
Average face amount exposed	\$24,000
Average face amount exposed of new issues	\$32,000
Average issue age	48
Average attained age	54
Male insured represented	43%
Permanent insurance represented	92%

Overall Results



- Overall policy lapse rates averaged 13.1 percent and face amount lapse rates averaged 18.6 percent.
- Face amount lapse rates were higher than policy lapse rates for all policy years. This is likely due to the nature of simplified issue products. Owners of larger policies are more likely to shop around and lapse their policy. Additional analyses by policy size are discussed in the next section.

**Table SI 3 —  
Simplified Issue Lapse Rates by Calendar Year**

Calendar Year	Policy Lapse Rate (%)	Face Amount Lapse Rate (%)
2009	13.4	18.6
2008	13.4	18.7
2007	13.4	18.8
2006	12.8	18.4
2005	12.4	18.4
<b>Total</b>	<b>13.1</b>	<b>18.6</b>

- Lapse results for simplified issue products showed no variance during the start of the U.S. recession in 2008 and 2009.
- As a comparison, policy lapse rates for individual life averaged 3.1 percent for the 2007–2009 study. Face amount lapse rates for that study averaged 3.0 percent. The significant difference in lapse rate could be attributed to various factors such as the smaller size of simplified issue policies, higher premiums, and ease of applying for a new policy.

Larger SI Policies Have Higher Lapse Rates

Figure SI 2 — Simplified Issue Life Insurance Policy Lapse Rates by Policy Size — Policy Year 1 to 5

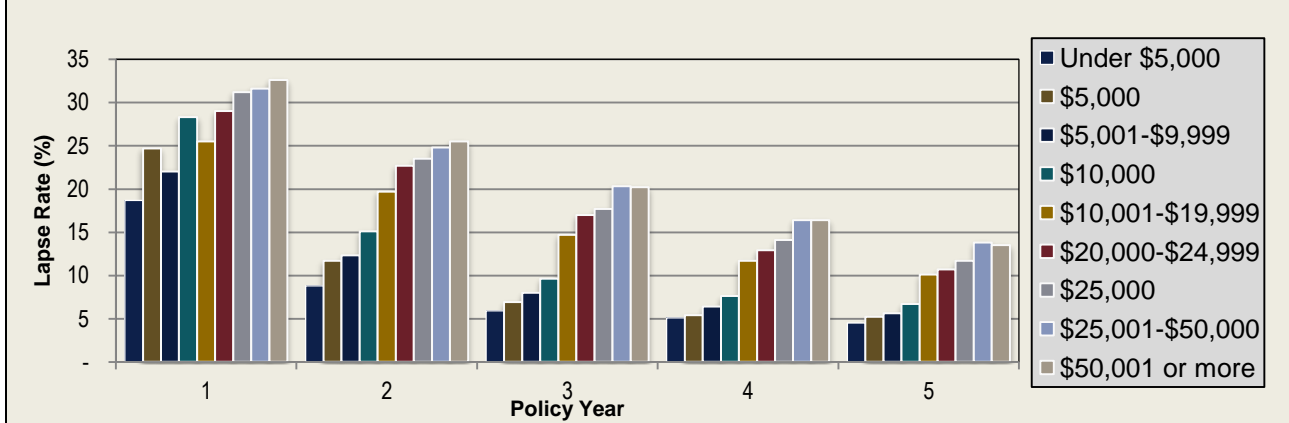
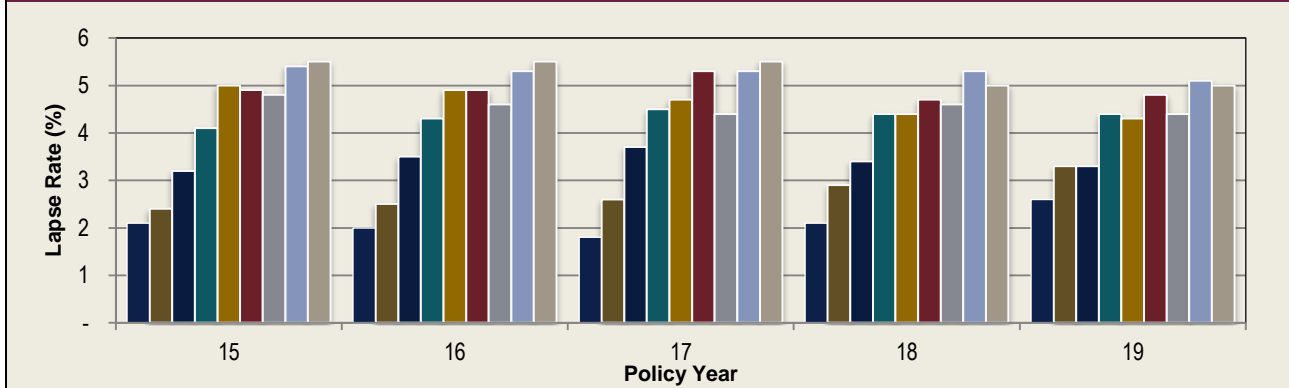


Figure SI 3 — Simplified Issue Life Insurance Policy Lapse Rates by Policy Size — Policy Year 15 to 19

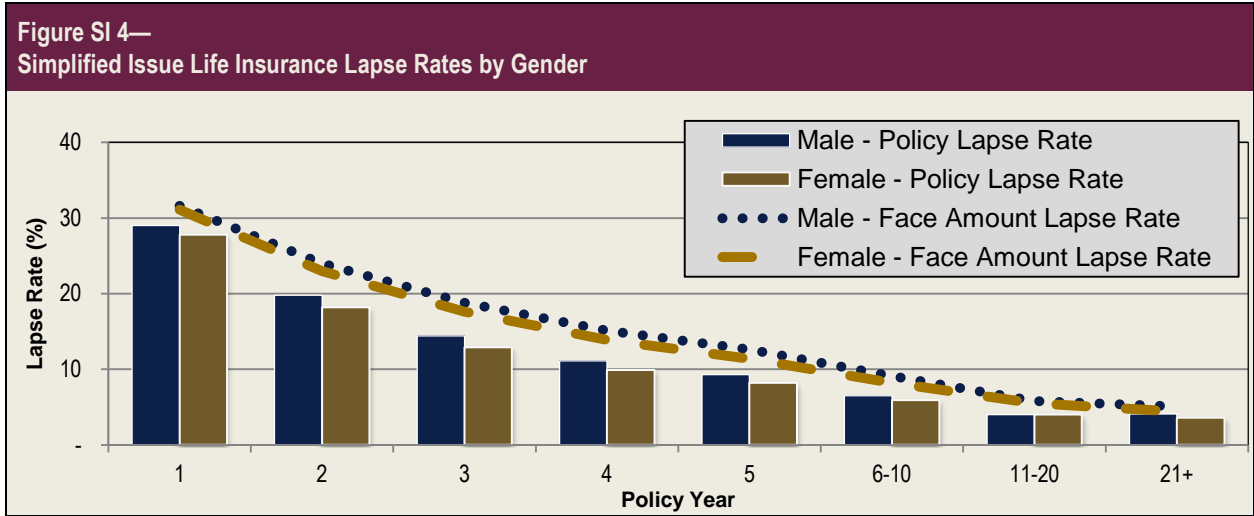


- Generally, lapse rates increase as policy size increases, with the a few exceptions. In the first policy year, owners of policies with face amounts of \$5,000 have higher lapse rates than those with policies greater than \$5,000 but less than \$10,000. This is likely due to greater pricing competition as well as the targeted markets at these specific face amounts. The same occurs of policies with face amounts of \$10,000.
- Even in later policy years, differences in lapse rates by policy size still shows the same trend of larger policies having higher lapse rates (Figure SI 3).
- Average face amount for new issues was \$32,000, while face amounts for all policy years averaged \$24,000.

Table SI 4 — Simplified Issue Life Insurance Exposure by Policy Size

Policy Size	Average Face Amount Exposed	Percent of Policy Exposed
Under \$5,000	2,500	19%
\$5,000	5,000	6%
\$5,001-\$9,999	7,200	11%
\$10,000	10,000	14%
\$10,001-\$19,999	14,300	11%
\$20,000-\$24,999	21,100	5%
\$25,000	25,000	8%
\$25,001-\$50,000	42,400	14%
\$50,001 and over	104,500	10%
<b>Total</b>	<b>\$24,000</b>	<b>100%</b>

Male Lapse Rates Higher Than Female Lapse Rates



- Lapse rates for male policyholders were higher than female policyholders for most policy years. Male policy lapse rates averaged 13.5 percent while female policy lapse rates averaged 12.8 percent. Face amount lapse rates averaged 19.2 percent for males and 18.5 percent for females.
- The simplified issue exposure base was comprised of 43% male and 57% female on a policy basis.
- The average face amount exposed for males was \$27,000; and the average face amount exposed for females was \$23,000.
- *Note: The gender analysis is not based on gender-based rates, but policyholder gender. Products using unisex rates were asked to specify unisex male or unisex female.*

Lapse Rates Decrease with Issue Age

Figure SI 5 — Simplified Issue Life Insurance Policy Lapse Rates by Issue Age — Policy Year 1 to 5

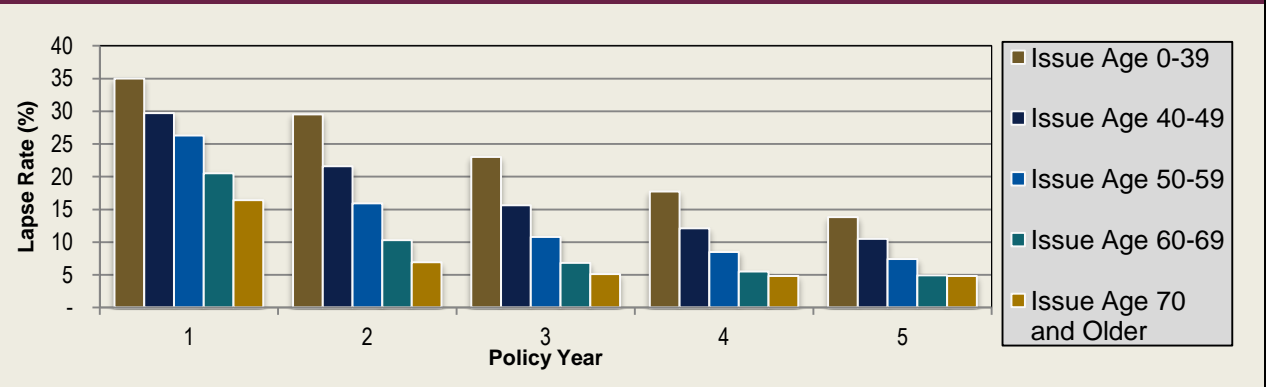
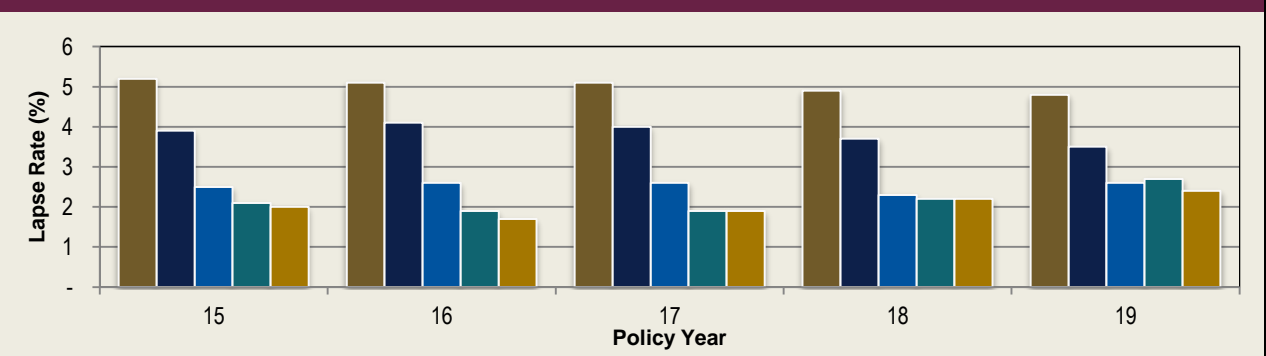


Figure SI 6 — Simplified Issue Life Insurance Policy Lapse Rates by Issue Age — Policy Year 15 to 19



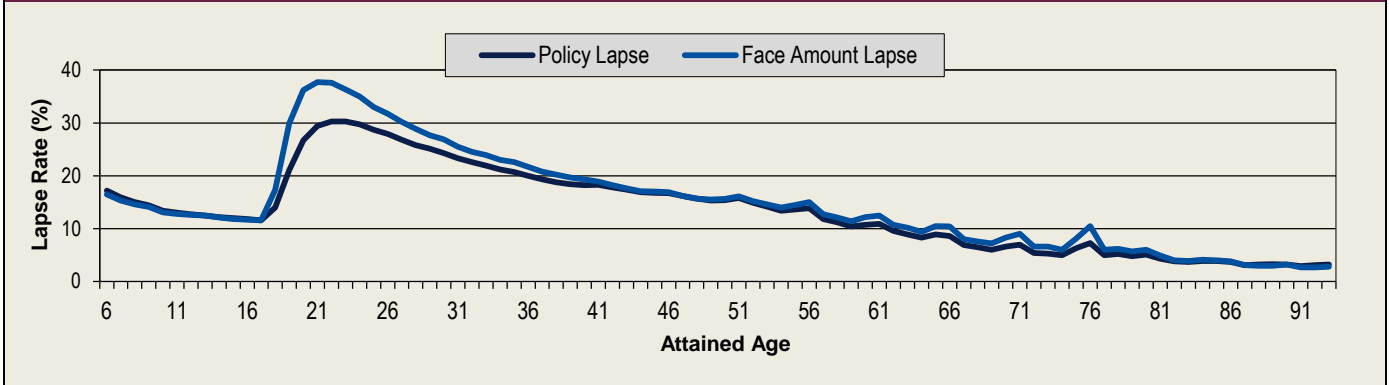
- Based on trends for overall individual life persistency, policies issued between the ages of 20 and 29 tend to have the highest policy lapse rates. For simplified issue, over a third of those in the 39 and under issue age cohorts were policies issued between the ages of 20 and 29.
- Policy lapse rates for younger issue age cohorts are the highest in almost all policy years.
- Distribution of the current study’s exposure base was skewed towards the younger issue age cohort (Table SI 5). The average issue age for simplified issue was 48 years old. Of those in the 39 and under issue age cohort, less than 5 percent were policies issued under the age of 20. Of those in the 70 and older issue age cohort, less than 2 percent were policies issued over the age of 80.

Table SI 5 — Simplified Issue Life Insurance Exposure by Issue Age Cohort

Issue Age	Average Face Amount Exposed	Percent of Policy Exposed
0-39	43,700	31%
40-49	32,000	19%
50-59	15,900	22%
60-69	8,100	17%
70+	5,600	11%

**Policyholders between the Ages of 20 to 29 Have the Highest Lapse Rates**

**Figure SI 7 —  
Simplified Issue Life Insurance Lapse Rates by Attained Age**



- Similar to trends for overall individual life persistency, policyholders in their 20s have higher lapse rates compared to other age groups. This age group tends to have poor retention due to their lack of perceived need for life insurance and placing priorities on other financial needs. And in some cases, policies are surrendered, as intended, for the savings aspect of the cash value.
- Young juvenile policies are more likely to be purchased by older relatives and tend to have lower lapse rates similar to the purchaser’s age.
- After age 25 or so, lapse rates tend to decrease as the policyholder ages. Older policyholders are less likely to lapse due to declining health and higher price of a replacement policy.
- Distribution of the exposure base by attained age leans slightly towards the older ages. The average attained age was 54 years old. Of those in the 39 and under issue age cohort, roughly 2 percent were policies under the age of 20. Of those in the 70 and older issue age cohort, roughly 8 percent were policies over the age of 80.

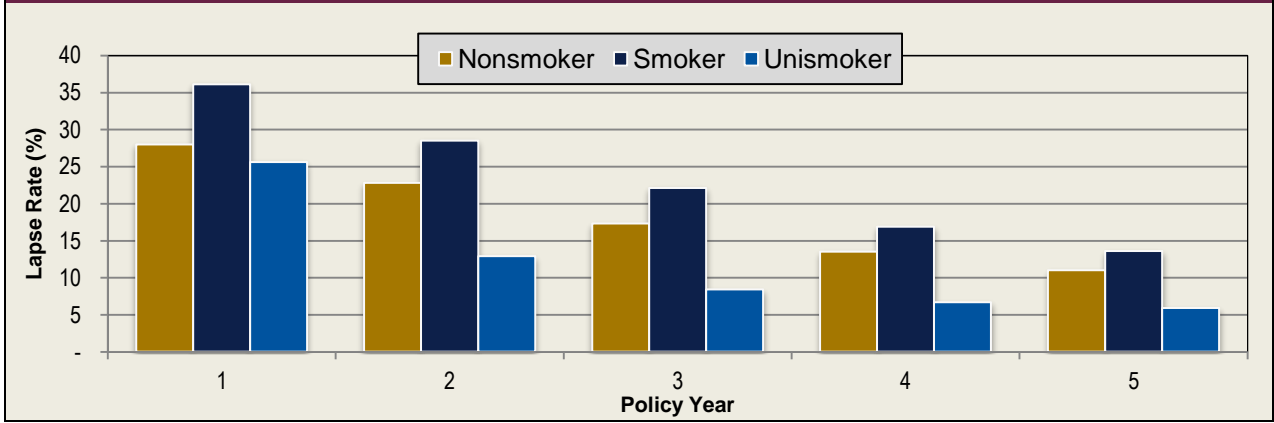
**Table SI 6 —  
Simplified Issue Life Insurance Exposure by Attained Age Cohort**

Attained Age	Average Face Amount Exposed	Percent of Policy Exposed
0-39	44,900	22%
40-49	40,000	16%
50-59	22,800	21%
60-69	11,700	17%
70+	6,000	23%



Unismoker Policies Have the Lowest Lapse Rates

Figure SI 8 —  
Simplified Issue Life Insurance Policy Lapse Rates by Smoker Status



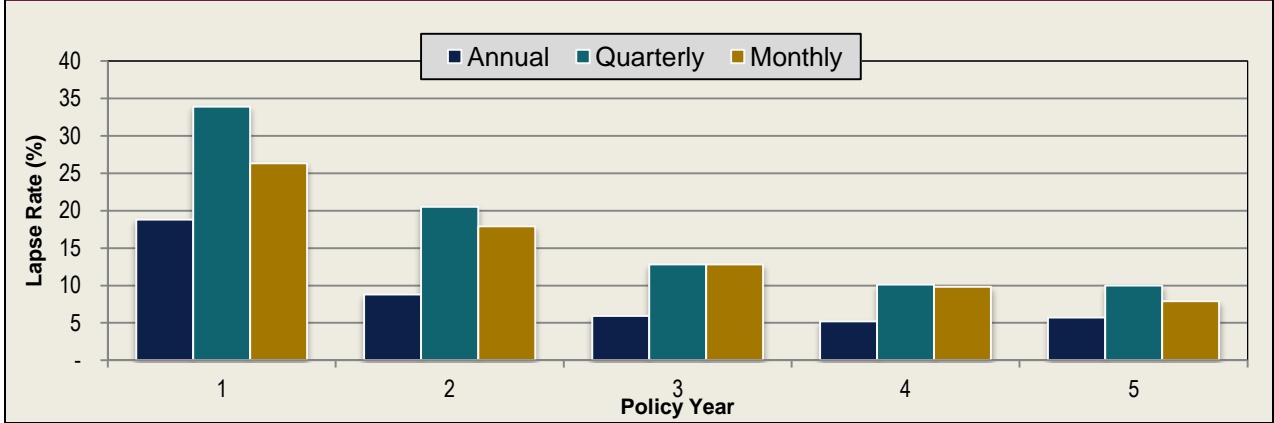
- Policy lapse rates averaged 16.6 percent for nonsmoker status, 20.2 percent for smoker status, and 8.8 percent for unismoker status. Unismoker rates are more likely to be used in the smallest face amount products, which has been shown to have the lowest lapse rates in the policy size analysis. And a greater portion of older policies, issues prior to 2000, are unismoker products.
- Distribution of the exposure base leans towards unismoker.

Table SI 7 —  
Simplified Issue Life Insurance Exposure by Smoker Status

	Average Face Amount Exposed	Percent of Policy Exposed
Nonsmoker	43,000	40%
Smoker	31,000	12%
Unismoker	9,000	48%

Monthly Premium Payment Mode Has the Highest Lapse Rate

Figure SI 9 —  
Simplified Issue Life Insurance Policy Lapse Rates by Premium Payment Mode



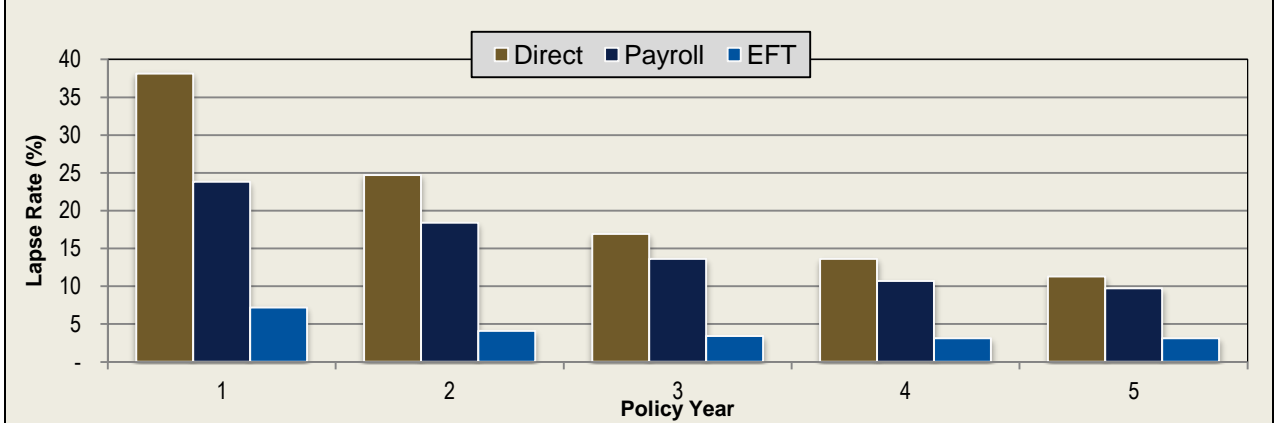
- Similar to trends for overall individual life persistency, policies with quarterly premium payment modes tend to have the highest lapse rates in early policy years. Lapse rates tend to increase with the number of premium payments made each year, with the exception of monthly payment modes.
- For the individual life persistency studies, monthly premium payment modes have significantly more policies paid through electronic fund transfer (EFT) methods than other payment modes. However, perhaps due to the nature of simplified issue products, policies paid through EFT are just as prevalent in non-monthly premium payment modes.
- Policy lapse rates averaged 7.5 percent for annual, 11.9 percent for quarterly, and 12.3 percent for monthly premium payment modes. *Note that not all companies provided premium mode on all policies and certain premium modes (such as semi-annually, weekly, etc) were excluded in this section due to insufficient exposure.*

Table SI 8 —  
Simplified Issue Life Insurance Exposure by Premium Payment Mode

Premium Mode	Average Face Amount Exposed	Percent of Policy Exposed
Annual	21,000	5%
Quarterly	18,000	5%
Monthly	22,000	90%

Premium Payment via Electronic Fund Transfers Have Lowest Lapse Rates

Figure SI 10 —  
Simplified Issue Life Insurance Policy Lapse Rates by Premium Payment Type



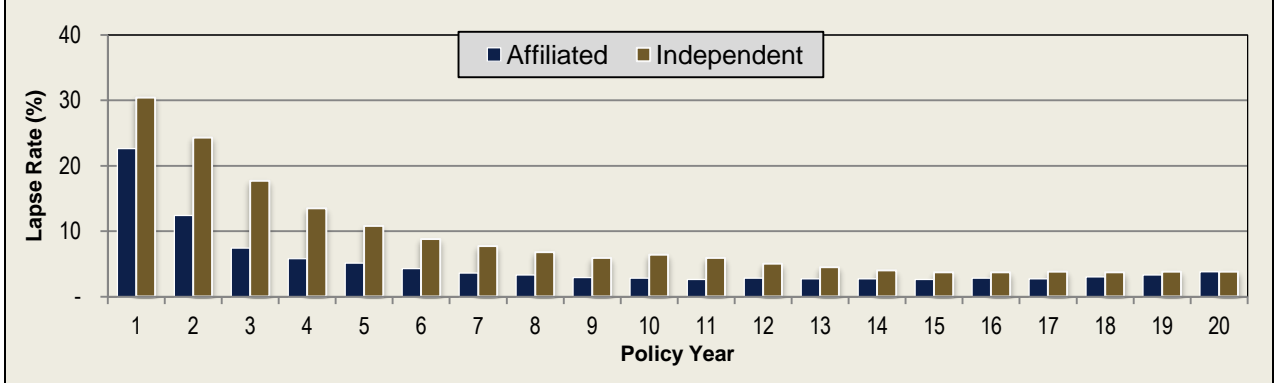
- Regardless of the frequency of premiums paid each year, lapse rates are lower for policies paid through automatic methods than compared to policies billed directly. Policies paid through electronic fund transfer (EFT) have significantly lower lapse rates than those paid through payroll deduction. Higher lapse rate for payroll deduction is likely caused by employee turnovers, which typically shifts the policy to a direct bill. Another factor is that payroll deduction policies are larger policies, which tend to have higher lapse rates.
- Policy lapse rates averaged 17 percent for direct bill, 13.4 percent for payroll deduction, and 3.8 percent for EFT methods.

Table SI 9 —  
Simplified Issue Life Insurance Exposure by Premium Payment Type

Premium Mode	Average Face Amount Exposed	Percent of Policy Exposed
Direct	16,000	47%
Payroll	37,000	17%
EFT	13,000	36%

Policies Sold Through Affiliated Agents Have Lower Lapse Rates

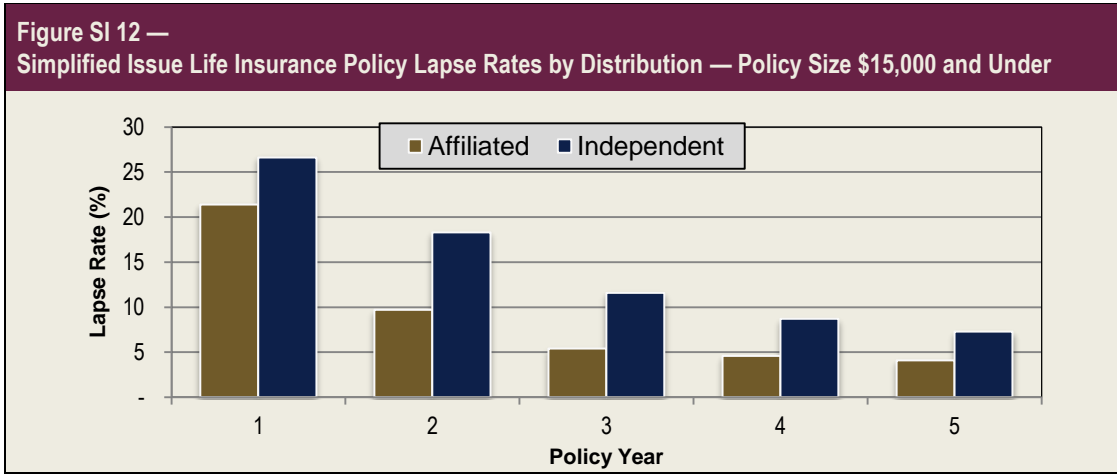
Figure SI 11 —  
Simplified Issue Life Insurance Policy Lapse Rates by Distribution



- Policy lapse rates averaged 7.5 percent for policies sold through an affiliated channel and 15.8 percent for those sold through an independent channel. Policies sold through an independent channel have higher lapse rates in most policy years. This is in part due to the greater portion of larger policies sold through the independent channel (Table 10).
- Face amount for the first policy year averaged \$21,000 for affiliated and \$40,000 for independent, making it difficult to see whether the difference in first year lapse rates is truly due to distribution.

Table SI 10 —  
Simplified Issue Life Insurance Exposure by Distribution

Distribution	Average Face Amount Exposed	Percent of Policy Exposed
Affiliated	11,000	12%
Independent	32,000	88%



- When focused on policies with face amount of \$15,000 and under, similar trend exists. For policies with face amount of \$15,000 or less, policy lapse rates average 6.2 percent for affiliated and 10.8 percent for independent. The lower lapse rate for policies sold through the affiliated channel is likely due to the stability of the channel and less product competition readily available.
- For policies with face amounts of \$15,000 or less, face amounts for the first policy year averaged \$8,300 for both channels. After accounting for some of the difference in policy size, lapse rates for policies sold through an affiliated channel are still significantly lower than those sold through an independent channel.

**Table SI 11 —  
Simplified Issue Life Insurance Exposure by Distribution —  
Policy Size \$15,000 and Under**

Distribution	Average Face Amount Exposed	Percent of Policy Exposed
Affiliated	6,200	21%
Independent	7,200	79%

## Methodology

For purposes of this report, lapse includes termination for nonpayment of premium, insufficient cash value or full surrender of a policy, and transfer to reduced paid-up or extended term status and terminations for unknown reason. This is consistent with the definition of lapse applied to other LIMRA and Society of Actuaries experience studies, and allows for better comparison of results over time.

The observation years in the study were 2007 to 2009, with partial data for 2009. Contributing companies were asked to provide information on their entire in-force block at the policy level. A portion of contributors provided two full policy (or anniversary) years of data, while others provided data for calendar years 2007 and 2008. All policies were converted to policy year for analysis.

The lapse rates shown are based on 100% of policies submitted, except in cases where a company's volume of business was so large or its experience was so different from that of other contributors such that overall industry results would be unduly skewed.

It should be noted that not all contributing companies in the study contributed data for their entire inforce block of subsidiaries, product lines, and experience years. In addition, several companies were not able to provide data for all policies and product factors requested. Therefore, care should be taken in interpreting the results.

Lapse rates are calculated as follows:

$$\text{Annualized Policy Lapse Rate} = 100\% \times \frac{\text{Number of Policies Lapsed During the Year}}{\text{Number of Policies Exposed to Lapse During the Year}}$$

The number of policies exposed to lapse is based on the length of time the policy is exposed to the risk of lapsation during the year. Lapses contribute exposure for the full 12 months. Terminations due to death, expiry, maturity, or conversion are not included in the amounts lapsing and contribute to exposure for only the fraction of the policy year they were inforce.

Industry lapse rates are calculated as a weighted average of the experience of all contributing companies; companies with larger inforce blocks will affect the overall results more than companies with smaller inforce blocks. However, results for each policy factor analyzed are also examined at the company level to ensure that reported experience is not overly affected by one or more large participant blocks.

Lapse rates are not reported for any data cell for which there were fewer than three companies *or* less than 1,000 policies exposed.

Experience was reported exactly as calculated. No attempts were made to level or smooth results.

## Participating Companies

	<b>GI</b>	<b>SI</b>
American Family Life Assurance Company of Columbus		Y
American Heritage Life		Y
American Memorial Life	Y	Y
American-Amicable Life Insurance Company of Texas		Y
Americo Financial Life & Annuity	Y	Y
Colonial Life and Accident		Y
Columbian Mutual	Y	Y
Combined Insurance Company of America		Y
CUNA Mutual Life	Y	Y
First UNUM Life		Y
Forethought Life	Y	Y
Government Personnel Mutual		Y
Homesteaders Life	Y	Y
ING Life		Y
Kansas City Life	Y	Y
Lincoln Heritage Life	Y	Y
Motorists Life Insurance Company	Y	
Mutual of Omaha	Y	Y
National Guardian Life	Y	Y
New York Life	Y	Y
Occidental Life Insurance Company of North Carolina		Y
Oxford Life		Y
Pekin Life	Y	Y
Physicians Life	Y	
Pioneer American		Y
Pioneer Security		Y
ReliaStar Life	Y	Y
ReliaStar Life of New York		Y
Security Life of Denver	Y	Y
Security National Life	Y	Y
Settlers Life	Y	Y
State Farm Life		Y
Symetra Life		Y
Union Security	Y	Y
Vantis Life	Y	Y



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